

FUNCTION 250: GENERAL SCIENCE, SPACE, AND TECHNOLOGY

MAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 250:
GENERAL SCIENCE, SPACE, AND TECHNOLOGY
(By fiscal year, outlays in billions of dollars)

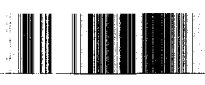
Item	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
CBO Baseline	9.1	9.4	9.8	10.3	10.8	
Proposed Changes						
National Science Foundation	0.1	0.1	0.1	0.1	0.0	0.4
Department of Energy (General science)	0.1	0.1	0.1	0.2	0.2	0.7
National Aeronautics and Space Adminis- tration	<u>-0.1</u>	<u>-0.2</u>	<u>0.2</u>	<u>1.0</u>	<u>0.9</u>	<u>1.8</u>
Total	<u>a/</u>	<u>a/</u>	0.5	1.2	1.1	2.8
President's 1987 Budget as Estimated by CBO	9.1	9.4	10.3	11.5	11.9	
President's 1987 Budget	9.2	9.3	10.2	11.0	11.7	
CBO Reestimates	-0.1	0.2	0.1	0.5	0.3	1.0

a. Less than \$50 million.

Proposed Policy Changes

The President proposes spending at or above baseline levels in all years for the basic research programs and National Aeronautics and Space Administration (NASA) activities in this function. The major increase relative to the CBO baseline is for NASA, primarily in fiscal years 1990 and 1991, for the proposed space station. The space station is expected to be in operation by the mid-1990s, and funding in the budget grows rapidly from a fiscal year 1986 base of about \$200 million to around \$2 billion annually beginning in





fiscal year 1990. (The CBO baseline assumes funding for the space station at 1986 levels, adjusted for inflation.) Neither the President's budget nor the baseline reflects the possible consequences of the recent explosion of the space shuttle Challenger. Significant budgetary changes will likely result, especially if the decision is made to build another shuttle orbiter.

For the National Science Foundation (NSF), the President's budget proposes spending increases of almost \$150 million above the CBO baseline in fiscal year 1987. This increase would fund more research grants and provide additional resources for science and engineering education activities. The budget also includes an increase of about \$90 million above the baseline in 1987 for the general science programs of the Department of Energy (DOE), including funding to upgrade the current accelerator facilities and to construct a new electron accelerator. Proposed funding for the NSF and DOE research activities is above baseline levels throughout the 1987-1991 period.

CBO Reestimates

CBO reestimates result primarily from differences in projected spending rates, especially for space station activities in 1990 and 1991.

FUNCTION 270: ENERGY

MAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 270: ENERGY (By fiscal year, outlays in billions of dollars)

Item	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
CBO Baseline	5.2	5.3	5.3	5.4	5.6	
Proposed Changes						
Rural Electrification	-0.3	-0.6	-1.0	-1.4	-1.8	-5.1
Energy R&D	-0.1	-0.4	-0.5	-0.7	-0.9	-2.6
Conservation	-0.1	-0.3	-0.4	-0.4	-0.4	-1.6
Strategic Petroleum Reserve	-0.2	-0.3	-0.3	-0.3	-0.3	-1.5
Uranium Enrichment	-0.1	-0.2	-0.2	-0.2	-0.2	-0.9
Naval Petroleum Reserves a/	b/	0.8	0.7	0.6	0.6	2.6
Power Marketing Administrations a/	b/	-0.1	b/	0.5	0.6	1.0
Nuclear Waste Disposal	b/	0.1	0.1	0.1	0.1	0.3
Other	b/	-0.2	-0.2	-0.2	-0.3	-0.6
Total	-0.8	-1.2	-1.8	-2.0	-2.6	-8.4
President's 1987 Budget as Estimated by CBO	4.4	4.1	3.4	3.3	3.1	
President's 1987 Budget	4.0	4.5	3.9	3.7	3.9	
CBO Reestimates	0.4	-0.4	-0.5	-0.4	-0.8	-1.8

- a. The receipts from the proposed sale of the Naval Petroleum Reserves and the power marketing administrations are shown in function 950. Function 270 outlays would increase, relative to the baseline, after the proposed asset sales, because these assets would no longer generate receipts for the government.
- b. Less than \$50 million.



Proposed Policy Changes

The President is proposing substantial cuts in energy programs, which would reduce outlays by 16 percent below the baseline in 1987, and by 46 percent in 1991. Outlay savings would total \$8.4 billion over the 1987-1991 period, or almost one-third of projected baseline spending for the five years. These savings are net of losses in receipts that would result from the proposed sale of the power marketing administrations (PMAs) and the Naval Petroleum Reserves (NPR). Excluding the reduction in receipts, outlay savings would total over \$12 billion from 1987 through 1991.

Rural Electrification. The largest savings would occur in activities of the Rural Electrification Administration (REA). The President would phase out REA's direct and guaranteed loans by 1990, while increasing the interest rate on remaining direct loans; would levy a fee on power supply borrowers to cover the cost of loan defaults; and would sell a portion of REA's direct loan portfolio.

Reducing REA's lending costs would lower outlays by a total of \$5.1 billion over the next five years. Most of this reduction, or about \$3.3 billion, results from phasing out new direct and guaranteed loans. Imposing a fee on power supply borrowers to recover the cost to the government of loan defaults would reduce outlays by an additional \$1.2 billion over the five years relative to CBO's baseline assumptions. Income from selling portions of the direct loan portfolio accounts for most of the remaining savings.

Energy Research and Development. Under the President's proposed budget, federal efforts in energy research and development for fossil, nuclear, solar, and other energy technologies would be reduced by about \$2.6 billion over the 1987-1991 period.

Conservation. Conservation spending would be reduced by \$1.6 billion over five years under the President's plan. Most of this reduction results from the proposed elimination of conservation grants. The budget proposal asserts that states are expected to receive significant funds for conservation as a result of the settlement of federal cases involving the alleged violation of oil price controls. For example, a recent court ruling directed that over \$2.0 billion in oil price overcharges be disbursed to the states.

Strategic Petroleum Reserve. The President proposes to stop filling the Strategic Petroleum Reserve at the end of 1986, when the reserve will contain approximately 500 million barrels. Current policy calls for a reserve of 750 million barrels. The President proposes a moratorium on increased oil reserves at the 500 million barrel level and reprogramming of

facilities development funds to maintain the current reserve without increasing storage capacity to the 750 million barrel goal. A five-year moratorium on both additional oil reserves and new capacity development would save \$1.5 billion, relative to current policy.

Uranium Enrichment. Reducing spending in uranium enrichment activities would enable the program to pay the Treasury for past federal investments, thereby reducing outlays by about \$0.9 billion by 1991.

Naval Petroleum Reserves and Power Marketing Administrations. Income from the sale of the power marketing administrations and Naval Petroleum Reserves appears in budget function 950, and are estimated to total \$14.8 billion over the 1987-1991 period. These savings would be partially offset, however, by an increase in outlays in budget function 270, because these assets would no longer generate receipts for the government. By 1991, net outlays would increase in function 270 by \$1.0 billion because of the sale of the PMAs, and by \$2.6 billion because of the sale of the Naval Petroleum Reserves. Outlay increases would continue in subsequent years.

Nuclear Waste Disposal. Spending on nuclear waste activities would increase by a total of \$0.3 billion over the five-year period. The baseline includes the President's proposed spending for developing the first and second nuclear waste repositories; the budget also reflects an increase in management, research, and other activities.

Other. Proposed increases in Federal Energy Regulatory Commission fees would reduce outlays by a total of \$0.3 billion by 1991. Reduced spending in other regulatory and administrative programs would lower outlays by a total of \$0.3 billion over the next five years.

CBO Reestimates

CBO estimates of the President's budget outlays are above the Administration's figures by \$0.4 billion in 1987 but are below them in 1988 through 1991. As a result, the CBO outlay projections are \$1.8 billion below the Administration's for the five-year period.

CBO assumes that sale of the Naval Petroleum Reserves will occur in 1988 rather than 1987, which means that the government would receive a full year of receipts in 1987. These additional receipts would lower 1987 outlays by \$0.4 billion. CBO estimates for other programs exceed the Administration's by about \$0.8 billion in 1987. They reflect higher estimated spending by the REA, a lag in implementing repayment reforms for the Bonneville Power Administration, and higher spending rates for a number of other programs.

Reestimates for 1988 through 1991 reflect CBO's different assumption about the timing of the sale of the Bonneville Power Administration (see budget function 950), which results in larger receipts in 1988 and 1989. They also reflect higher estimates of REA receipts in 1990 and 1991, and lower estimates of spending by the Tennessee Valley Authority and in several other programs.

Credit Programs

The President proposes to phase out REA's direct and guaranteed loan programs by 1990, and to increase the interest rate on any future direct loans. Under this policy change, REA's direct loans, which currently bear interest at 5 percent, would be reduced by a total of about \$4.0 billion over the next five years. Terminating the REA guaranteed-loans program would reduce federal lending activity by a total of \$4.8 billion by 1991, because virtually all of the guaranteed loans are financed by the Federal Financing Bank (FFB).

MAJOR CREDIT PROGRAM CHANGES PROPOSED FOR FUNCTION 270: ENERGY (By fiscal year, in billions of dollars)

Item	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
Direct Loan Obligations						
CBO Baseline	2.1	2.2	2.2	2.3	2.4	
Proposed Changes						
Rural Electrification	-0.5	-0.6	-0.8	-1.0	-1.1	-4.0
Rural Electrification (FFB Loans)	<u>-0.7</u>	<u>-0.9</u>	<u>-1.0</u>	<u>-1.1</u>	<u>-1.1</u>	<u>-4.8</u>
Total	-1.2	-1.5	-1.8	-2.1	-2.2	-8.8
President's 1987 Budget as Estimated by CBO	0.9	0.6	0.4	0.1	0.1	

FUNCTION 300: NATURAL RESOURCES AND ENVIRONMENT

MAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 300: NATURAL RESOURCES AND ENVIRONMENT (By fiscal year, outlays in billions of dollars)

Item	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
CBO Baseline	13.1	14.1	13.9	14.0	14.3	
Proposed Changes						
Construction Grants	<u>a/</u>	-0.1	-0.4	-0.9	-1.5	-2.9
Soil and Water Conservation	-0.3	-0.4	-0.5	-0.5	-0.6	-2.4
Forest Service	-0.2	-0.2	-0.3	-0.3	-0.4	-1.3
NOAA Operations, Research and Facilities	-0.2	-0.2	-0.3	-0.4	-0.4	-1.5
Land Acquisition	-0.1	-0.1	-0.1	-0.1	-0.1	-0.6
Bureau of Reclamation	0.1	0.2	0.2	0.2	0.2	0.8
Corps of Engineers						
Spending	0.2	0.4	0.5	0.6	0.6	2.4
Receipts	-0.3	-0.3	-0.3	-0.5	-0.5	-1.9
Other	<u>-0.3</u>	<u>-0.6</u>	<u>-0.5</u>	<u>-0.8</u>	<u>-0.8</u>	<u>-2.9</u>
Total	-1.0	-1.3	-1.7	-2.7	-3.5	-10.2
Other Adjustments <u>b/</u>	-0.1	-0.9	-0.4	-0.3	-0.3	-2.0
President's 1987 Budget as Estimated by CBO	12.0	11.9	11.8	11.1	10.4	
President's 1987 Budget	12.0	11.8	11.7	11.2	10.7	
CBO Reestimates	<u>a/</u>	0.1	0.1	-0.1	-0.3	-0.2

a. Less than \$50 million.

b. CBO's estimate of the President's budget includes additional changes from the baseline in the outlay estimates for the Environmental Protection Agency's construction grant program, to reflect technical adjustments made after completion of the baseline.





Proposed Policy Changes

While the President's budget proposes increased spending in 1987 for Bureau of Reclamation and Corps of Engineers water resource programs, these proposed increases are more than offset by reductions for most other natural resources and environment activities. CBO estimates that enactment of the President's proposals would result in net outlay savings from the CBO baseline of \$1.0 billion in 1987 and \$10.2 billion over the 1987-1991 period. The budget proposals would reduce spending for this function by 15 percent below baseline levels over the five years.

The largest savings in this function would result from the Administration's proposal to phase out the construction grants program of the Environmental Protection Agency beginning in 1987. New funding would be limited to projects already under way, and budget authority would fall from \$2.4 billion in 1986 to zero by 1990. Outlay savings would total \$2.9 billion through 1991.

The President's budget would also reduce spending by shifting the focus of soil and water conservation activities as a result of the new conservation reserve program (in budget function 350, Agriculture) authorized by the Food Security Act of 1985. Except for Soil Conservation Service technical assistance of \$0.4 billion a year to support the conservation reserve, the budget proposes to eliminate by 1988 the current soil and water conservation activities of the Agricultural Stabilization and Conservation Service and the Soil Conservation Service. Savings from these reductions would total \$0.3 billion in 1987 and \$2.4 billion over the 1987-1991 period.

Additional savings totaling \$6.3 billion through 1991 would be obtained through a variety of other program reductions in the Agriculture, Commerce, and Interior Departments. The budget contains a 12 percent decrease from 1986 to 1987 for existing Forest Service programs, with funding frozen at about the 1987 level thereafter. The decrease reflects a reduction in planned timber sales and associated road construction, termination of forestry grants to states, and reduction of forest research funds for projects determined to directly support private industry. Requested budget authority for the National Oceanic and Atmospheric Administration's (NOAA) operations research and facilities account is about \$0.2 billion, or about 21 percent less than the fiscal year 1986 level. Significant cuts are proposed for several NOAA programs, including most ocean and coastal activities (sea grants would again be slated for termination) and marine fisheries activities. Requested budget authority for NOAA reflects no additional subsidies for Landsat and assumes a one-satellite polar orbiting system. The proposed reduction would be partially offset by a \$50 million

increase in the transfer from the Airport and Airways Trust Fund for the aviation weather services program and other activities.

The Administration has also proposed overall cuts in spending for land acquisition and recreational construction in this function, as well as new offsetting receipts of about \$100 million a year from additional recreation user fees. These receipts would be earmarked for operation and maintenance of Forest Service and Park Service facilities rather than being deposited in the Land and Water Conservation Fund, as is now done. For federal land management activities of the Bureau of Land Management, the President's budget proposes reductions from 1986 to 1987 of less than 2 percent, with the Bureau of Indian Affairs conservation activities slated for a 7 percent reduction.

The reductions in other areas are partially offset by increased spending for water projects of the Bureau of Reclamation and the Corps of Engineers. The Administration has proposed a 19 percent increase in funding over fiscal year 1986 levels for the Bureau's activities, or 10 percent above the baseline. Outlays over the 1987-1991 period would be about \$0.8 billion above baseline levels. Most of the increase is proposed for accelerated activity on continuing the Bureau's construction projects.

The Administration's budget proposes 1987 funding of \$3.3 billion for the Army Corps of Engineers. This represents an 18 percent increase over fiscal year 1986 levels and an 11 percent increase over the baseline. Most of the increase is proposed to begin work on 19 new construction projects and to continue construction on 41 projects authorized in the 1985 supplemental appropriation. These plans assume enhanced cost-sharing arrangements with nonfederal interests. The spending increase would be partially offset by \$0.3 billion to \$0.5 billion per year in new user fees for deep draft navigation. Additional revenues from the increases in the barge fuel tax for the inland waterway system are estimated to total less than \$50 million over the 1987-1991 period. In total, additional revenues and receipts would cover \$1.9 billion of the Corps' \$2.4 billion in additional spending over the 1987-1991 period.

CBO Reestimates

CBO's outlay estimates do not differ significantly from the Administration's estimates for this function.

FUNCTION 350: AGRICULTURE

MAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 350:
AGRICULTURE (By fiscal year, outlays in billions of dollars)

Item	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
CBO Baseline	23.2	24.7	21.1	15.8	12.9	
Proposed Changes						
Agricultural Credit						
Insurance Fund	-0.7	-0.2	-0.7	-1.1	-1.1	-3.8
Federal Crop Insurance	-0.1	-0.3	-0.4	-0.5	-0.6	-1.9
Commodity Credit						
Corporation	-0.1	-0.3	-0.4	-0.5	-0.5	-1.9
Extension Service	-0.2	-0.2	-0.2	-0.3	-0.3	-1.1
Other	<u>-0.2</u>	<u>-0.2</u>	<u>-0.4</u>	<u>-0.4</u>	<u>-0.4</u>	<u>-1.6</u>
Total	-1.3	-1.2	-2.1	-2.8	-2.9	-10.3
President's 1987 Budget as Estimated by CBO	21.9	23.5	19.0	13.0	10.0	
President's 1987 Budget	19.5	19.7	18.9	15.4	11.4	
CBO Reestimates	2.3	3.8	0.1	-2.4	-1.4	2.4

Proposed Policy Changes

The President's budget proposes spending reductions in the agriculture function by reducing federal subsidies or charging fees for activities that benefit specific groups, and cutting back on certain research and education programs. Total savings relative to the CBO baseline would be \$10.3 billion over the 1987-1991 period, with spending 23 percent below the baseline level at the end of the period. Furthermore, outlays are expected to drop sharply under current law, primarily as a result of changes in price support programs enacted in the Food Security Act of 1985. Consequently, total outlays for agriculture programs would drop from \$30.4 billion in 1986 to an estimated \$10.0 billion in 1991.

The largest outlay savings from proposed policy changes would occur in the Agricultural Credit Insurance Fund (ACIF). Emergency disaster loans would be eliminated in 1987, and other direct loans would be phased out by 1990. (The CBO baseline maintains direct loans at levels projected from 1988 loan limits specified in the Food Security Act of 1985.) There would be no direct loan obligations in 1990 (compared with \$2.0 billion in 1986), while guaranteed loans would increase from \$1.9 billion in 1986 to \$4.0 billion in 1991. Resulting outlay savings would total \$3.8 billion over the five-year period.

The President's budget would also phase out support for the Federal Crop Insurance Corporation over a five-year period. Currently, farmer premiums are subsidized, and federal funds are used to cover administrative and operating expenses of the corporation. The Administration intends to continue to operate the crop insurance program, but with participants eventually bearing all the costs. Annual savings would reach \$0.6 billion by 1991.

Commodity Credit Corporation (CCC) spending would also be reduced by an increase in origination fees for export credit guarantees. In addition, the President is proposing to reduce the required level of export credit loan guarantees from \$5.5 billion per year to \$3.0 billion per year beginning in 1987. This reduction in guarantee levels would cause lower outlays for direct loans in later years because of reduced claims for defaulted loans. Savings as a result of increased fees and reduced guarantee claims would grow from \$140 million in 1987 to \$530 million in 1991.

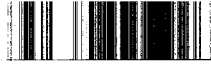
Further savings would be obtained by a sharp reduction in funding for the Extension Service, from \$328 million in 1986 to \$140 million annually beginning in 1987. All categorical programs, the largest of which is the Expanded Food and Nutrition Education Program, would be eliminated. Savings would total \$1.1 billion over the 1987-1991 period.

Other proposed spending reductions in the President's budget result from new and expanded user fees in marketing and inspection service programs, including grain inspection, activities of the Packers and Stockyards Administration, and services to agricultural cooperatives. In addition, no further funding is being requested for the Temporary Emergency Food Assistance Program.

CBO Reestimates

Most of the CBO outlay reestimate is for the Commodity Credit Corporation, as the result of differing assumptions concerning the supply and use of





supported commodities and the Secretary of Agriculture's use of discretion in implementing the support programs. In the first two years, the reestimates result primarily from differences in assumptions about advanced deficiency payments. The CBO estimates assume that advanced deficiency payments would be made on the 1987 crops and in subsequent years, following the policies already announced for the 1986 crop. The Administration, on the other hand, assumes that no advanced payment would be made on crops after 1986. The ACIF also contributes to the upward reestimate during the first three years, largely because CBO has projected lower loan repayments from the existing portfolio than are implicit in the President's budget estimates.

Credit Programs

As indicated above, the President's budget proposes reductions in loan guarantees and in resulting direct loans made by the CCC. The Administration also seeks to eliminate ACIF direct lending, while increasing guarantees. These proposals are summarized in the table on the following page.

MAJOR CREDIT PROGRAM CHANGES PROPOSED FOR FUNCTION 350:
AGRICULTURE (By fiscal year, in billions of dollars)

Item	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
Direct Loan Obligations						
CBO Baseline	14.3	12.1	11.3	10.0	9.4	
Proposed Changes						
Agricultural Credit Insurance Fund	<u>a/</u>	<u>a/</u>	-0.6	-1.1	-1.2	-3.0
Agricultural Credit Insurance Fund (Disaster)	-0.7	-0.1	-0.1	-0.1	-0.1	-1.1
Commodity Credit Corporation	<u>a/</u>	<u>-0.2</u>	<u>-0.3</u>	<u>-0.4</u>	<u>-0.4</u>	<u>-1.2</u>
Total	-0.8	-0.3	-1.0	-1.6	-1.6	-5.3
President's 1987 Budget as Estimated by CBO	13.5	11.8	10.4	8.5	7.8	
Guaranteed Loan Commitments						
CBO Baseline	8.0	8.5	8.6	8.8	8.9	
Proposed Changes						
Agricultural Credit Insurance Fund	<u>a/</u>	<u>a/</u>	0.4	0.7	0.6	1.7
Commodity Credit Corporation	<u>-2.5</u>	<u>-2.5</u>	<u>-2.5</u>	<u>-2.5</u>	<u>-2.5</u>	<u>-12.5</u>
Total	-2.5	-2.5	-2.1	-1.8	-1.9	-10.8
President's 1987 Budget as Estimated by CBO	5.5	6.0	6.5	7.0	7.0	

a. Less than \$50 million.

FUNCTION 370: COMMERCE AND HOUSING CREDIT

**MAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 370:
COMMERCE AND HOUSING CREDIT**
(By fiscal year, outlays in billions of dollars)

Item	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
CBO Baseline	4.0	5.3	3.6	3.6	2.3	
Proposed Changes						
Rural Housing Insurance Fund	-1.4	-1.9	-2.1	-2.2	-2.2	-9.9
Small Business Administration	-0.7	-1.4	-1.4	-1.5	-1.1	-6.1
Housing for the Elderly or Handicapped	-0.1	-0.2	-0.4	-0.5	-0.6	-1.8
Federal Housing Administration	-0.2	-0.4	-0.4	-0.3	-0.2	-1.5
Guarantees of Mortgage- Backed Securities	a/	-0.1	-0.1	-0.2	-0.2	-0.6
U.S. Postal Service	0.7	1.0	0.3	0.4	0.1	2.5
Other	a/	a/	-0.1	-0.2	-0.1	-0.4
Total	-1.7	-2.9	-4.2	-4.5	-4.4	-17.7
Other Adjustments b/	0.8	2.0	-0.5	-0.1	0.2	2.4
President's 1987 Budget as Estimated by CBO	3.1	4.3	-1.1	-1.0	-1.9	
President's 1987 Budget	1.4	3.8	-0.5	-1.0	-1.8	
CBO Reestimates	1.8	0.5	-0.6	a/	-0.1	1.6

a. Less than \$50 million.

b. CBO's estimate of the President's budget includes additional changes from the baseline totaling \$2.4 billion over five years, to reflect technical adjustments in the Postal Service estimates made after completion of the baseline.

Proposed Policy Changes

The President proposes terminating or reducing a number of programs that currently support commerce or housing activities, on the grounds of removing the federal government from activities that the Administration believes compete directly with the private sector. Over \$4 billion a year in spending would be eliminated by 1989, and offsetting receipts and collections in this function would exceed spending by that time. CBO estimates that enactment of the President's proposals for this budget function would result in net outlay savings of \$1.7 billion in 1987, with savings totaling \$17.7 billion over the 1987-1991 period.

SBA and FmHA Programs. Most of the savings in this function would result from the proposed elimination of the Small Business Administration (SBA) and the rural housing programs of the Farmers Home Administration (FmHA) beginning in 1987. Most of the FmHA assistance is provided by the Rural Housing Insurance Fund (RHIF) in the form of reduced interest rates for mortgage loans to low-income households or to developers of low-income rental housing. The President is proposing to reduce the 1986 program level to \$1.3 billion, \$700 million below the \$2.0 billion currently authorized by the Congress, and to eliminate RHIF loans thereafter. Outlay savings would exceed \$2 billion a year by 1989, and would total \$9.9 billion over the 1987-1991 period.

To eliminate the Small Business Administration, as was proposed last year, the Administration would terminate the programs providing direct and guaranteed loans and equity investments, and sell the agency's portfolio over a four-year period. Certain SBA activities that provide advocacy, management, technical, and procurement assistance would be transferred to the Department of Commerce, to be funded at less than \$40 million annually through 1991. Eliminating the agency would reduce outlays relative to the baseline by \$0.7 billion beginning in 1987, with a cumulative savings of \$6.1 billion over the five-year period.

HUD Programs. Currently, the Department of Housing and Urban Development (HUD) makes direct loans to nonprofit sponsors to finance construction of housing for low-income elderly or handicapped residents. The Administration's budget proposes to rescind virtually all of the more than \$600 million authorized by the Congress for use in 1986 and to eliminate this program. Rental assistance payments would be provided by HUD to eligible households living in private housing.

At the time a mortgage loan guaranteed by the Federal Housing Administration (FHA) is closed, the borrower pays a fee typically amounting to 3.8 percent of the loan amount. Beginning in 1987, the President is



proposing to increase the fee to 5.0 percent and to require that it be paid in cash. In addition, HUD intends to limit its insurance program to households with incomes no higher than \$40,000. These proposals would increase government receipts by an estimated \$1.5 billion through 1991.

The HUD budget also includes a proposed increase in the fees charged for mortgage-backed security guarantees. Fees would rise 9 basis points in 1987 and another 5 basis points in 1988. In total, this would increase fees from today's 6 basis points (0.06 percent) to 20 basis points (0.20 percent) in 1988. Income from such fees would reach \$0.2 billion annually by 1990.

Postal Service. The President is proposing to increase by 2 percent annually the Postal Service payments to the Civil Service Retirement Fund. As a result, the Postal Service share of the actuarial costs of employee pensions would grow from the current level of 7 percent to 17 percent by 1991. Another proposal would require the Postal Service to begin paying the cost of postal annuitants' health benefit premiums beginning in 1987. These two changes would increase the costs of the Postal Service by about \$0.7 billion in 1987, increasing to \$1.5 billion by 1991. (These payments, totaling \$6.4 billion over the five years, are intragovernmental transactions and would be reflected as offsetting receipts in other functions.) To recover these costs, the Postal Service would increase postal rates, resulting in net savings to the federal government over time.

The President is again proposing to eliminate the revenue forgone appropriation for the Postal Service. This payment compensates the Postal Service for revenues lost because the Congress has specified reduced postage rates for certain classes of mailers, primarily religious and other nonprofit organizations, blind and otherwise handicapped people, small-circulation newspapers, and libraries. Rather than continue taxpayer support for these subsidies, the President is proposing to eliminate eligibility for certain groups and maintain the subsidy for the remaining groups by increasing rates for other classes of mail. These changes would reduce appropriations by between \$700 million and \$800 million per year through 1991, but would increase the Postal Service deficit by similar amounts until the projected rate increase goes into effect in 1989. Because prior-year losses to the Postal Service are generally recovered over 10 years, the 1987 and 1988 reduction in the revenue forgone payment would not be fully recovered until 1999.

Assuming enactment of these proposals, CBO estimates that the price of first-class postage would increase to 26 cents in the second quarter of 1989, or 1 cent more than assumed in the CBO baseline. Such an increase would generate an additional \$4 billion in revenue relative to the baseline in the 1989-1991 period. The combination of proposals affecting the Postal

Service would result in increased net spending in this function of \$2.5 billion over the 1987-1991 period and increased receipts in other budget functions of \$6.4 billion, for a net spending reduction of about \$3.9 billion.

CBO Reestimates

Postal Service outlays exceed those estimated by the Administration by \$1.0 billion in 1987 and \$0.8 billion in 1988, but are lower in 1989 by \$0.3 billion. In part, these adjustments reflect lower net income estimates of \$1.0 billion in 1987 and \$0.3 billion in 1988 resulting primarily from different productivity assumptions. Beginning in 1988, the Postal Service costs for increased health contributions were not included in the 1987 budget estimates. CBO has added about \$500 million annually in 1988-1991 to reflect these expenses. These increases are partly offset by projected income of \$0.8 billion in 1989, \$0.6 billion in 1990, and \$0.5 billion in 1991 resulting from CBO's assumptions about increased postal rates.

Because of the extent of the problems affecting financial institutions, outlays for the Federal Deposit Insurance Corporation (FDIC) and the Federal Savings and Loan Insurance Corporation (FSLIC) insurance funds are expected to exceed the Administration's estimates by about \$0.4 billion in 1987. CBO assumes that a special assessment will be imposed on thrift institutions to maintain the solvency of the FSLIC fund, resulting in net outlays about \$0.2 billion to \$0.4 billion less than those assumed by the Administration in 1988 and each year beyond.

CBO estimates of FHA Fund outlays exceed the Administration's by \$0.3 billion in 1990 and \$0.4 billion in 1991, because CBO estimates lower receipts and higher payments for insurance claims.

Credit Programs

Consistent with the President's proposal to terminate or curtail a number of commerce and housing programs, direct and guaranteed loans would be cut by about \$19 billion and \$59 billion, respectively, from 1987 through 1991. Most seriously affected would be FHA, SBA, and RHIF.

Beginning in 1987, SBA would no longer be providing, on an annual basis, direct financial assistance of about \$750 million or guaranteed loans of about \$3 billion. Loan assets totaling about \$4.8 billion would be sold in 1987 through 1990. Offsetting the receipts from the sale of these assets is a loss of interest that otherwise would have been paid to the government. The reduction in interest receipts is reflected in budget function 900. These proposals are summarized in the table on the following page.



MAJOR CREDIT PROGRAM CHANGES PROPOSED FOR FUNCTION 370:
COMMERCE AND HOUSING CREDIT (By fiscal year, in billions of dollars)

Item	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
Direct Loan Obligations						
CBO Baseline	5.1	5.2	5.6	5.6	5.7	
Proposed Changes						
RHIF	-2.1	-2.2	-2.3	-2.4	-2.5	-11.5
Housing for Elderly	-0.6	-0.6	-0.7	-0.7	-0.8	-3.4
Small Business						
Administration						
Business	-0.1	-0.1	-0.1	-0.1	-0.1	-0.5
Federal Financing						
Bank Loans	-0.3	-0.7	-0.7	-0.7	-0.8	-3.2
Defaults	a/	a/	-0.2	-0.3	-0.4	-0.9
Government National						
Mortgage Association						
(Repurchases)	0.2	---	---	---	---	0.2
Other	---	---	a/	---	a/	0.1
Total	-2.9	-3.6	-4.0	-4.2	-4.5	-19.2
President's 1987 Budget as Estimated by CBO	2.2	1.6	1.7	1.4	1.2	
Guaranteed Loan Commitments						
CBO Baseline	40.5	42.2	43.8	45.6	47.4	
Proposed Changes						
Farmers Home						
Administration	-5.4	-6.9	-8.5	-10.2	-11.9	-42.9
SBA (Business)	-3.0	-3.1	-3.3	-3.4	-3.5	-16.3
Other	---	a/	a/	a/	a/	-0.2
Total	-8.4	-10.1	-11.8	-13.7	-15.5	-59.4
President's 1987 Budget as Estimated by CBO	32.1	32.1	32.0	31.9	31.9	

a. Less than \$50 million.